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January 18, 1994

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Ms. Merrill Spiegel, Mass Media Special Assistant
Office of the Chairman
Federal Communications Commission
1919 M Street, NW
Washington, DC 20554

Dear Ms. Spiegel:

The Small Cable Business Association has requested that I write to you. Let me first introduce myself. My name is Tom Kenly and I am the Senior Vice President of Operations for Tele-Media Corporation of Delaware ("Tele-Media"). Tele-Media is an MSO that operates cable systems in 16 states and serves approximately 400,000 equivalent basic subscribers. Many of the systems and the subscribers we serve are from rural and low density areas. I personally have been working in the cable industry for over 24 years. My cable experience has been fairly broad including: (i) five years with C-Cor Electronics, a major producer and supplier of cable electronic products to the entire cable television industry, and (ii) over 19 years with Tele-Media. My experience has included rural, suburban and urban cable television systems.

I understand that the FCC will soon be discussing some of the issues regarding any cost or expense differences between systems of low and high densities. It has also been reported that you embrace the premise that there are little differences in the costs or expenses associated with the two types of systems.

I must confess that I know nothing about your background or experience. It is possible that you have worked for rural or suburban cable systems that provide cable service to areas with densities of 25 or fewer homes per mile and it is even possible that you have been employed by a large MSO that provides cable service to both urban and rural areas. If however, you have had neither of these experiences, nor the direct knowledge of these diverse operating conditions, then I ask you to please consider the following comments.

Although it might appear, at first blush, that there are no significant differences between the cost or the expense to operate urban and rural cable systems, the difference in construction costs and operating expenses **per subscriber** between the systems serving urban and rural environments can be substantial.

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The differences begin with the construction of the plant and the headend itself. The cost to construct a mile of plant is reasonably constant, except in the largest of cities, where much of the construction is underground and in conduit. Since I have been in cable, I have had the experience of participating in the design and construction of cable plant in many of the larger communities surrounding the city of Pittsburgh, Pennsylvania, as well as in many of the smaller communities that we serve today. In all of that construction, the cost per aerial mile of construction did not vary significantly between the urban and rural areas and today, that construction can be completed for between \$15,000 and \$20,000 per mile. However, there is a good reason why larger MSO's do not build communities or areas with densities less than 35 homes per mile. At \$15,000 per mile for aerial construction, it costs \$428 per home passed, at densities of 35 homes per mile, just to build the cable plant, or about \$857 per subscriber if the system achieves 50% penetration. In many of the larger systems, in urban and suburban areas, **average** density may be 200 or more homes per mile, which would reduce plant construction costs to \$75 per home passed or about \$150 per subscriber. On the other hand, many rural systems have average densities far below 35 homes per mile and companies such as Tele-Media have constructed expansions in rural areas down to less than 20 homes per mile. In one of our systems, we agreed and built down to a density of 8 homes per mile to satisfy the franchising authority.

The cost for the antenna site or headend can vary depending on code requirements in the community, the number of channels provided, the type of security provided and the type of tower necessary to receive off-air signals. These costs might range from \$150,000 for 35 channels to, perhaps, as much as \$500,000. The cost of the headend is **generally not** related to the number of subscribers, and a smaller community may require a more expensive headend than a larger city, simply because it may require a higher and more expensive tower to support larger and more expensive antennae necessary to receive more distant off-air signals. However, if we assume the more expensive headend and divide it by system potential, in this case, let's assume \$500,000 divided by a potential of 200,000 homes passed by plant, the cost per home passed is only \$2.50. Assuming that the smaller, rural system requires only a \$150,000 headend for a 4,000 home potential, it can be seen that the cost per home passed has increased to \$37.50. Reversing the costs and potential will obviously only exacerbate the cost per potential subscriber in the rural system.

The cost of the capital to construct cable plant and headends is not free and must be amortized. When that cost is six or more times greater **per subscriber** for small and rural

systems than it is for larger, higher density systems, it seems to me that there is a difference in operating costs or the cost to do business.

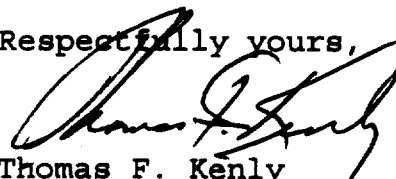
It may also initially appear that expenses would be independent of the size of the system. Unfortunately, that too differs between large operators and small operators. While it may not necessarily depend on system density, the fact remains that the operators with large subscriber bases (specifically greater than 1,000,000 subscribers) can negotiate lower **per subscriber** rates for programming. Similarly, they are able to negotiate price discounts for services and other supplies and materials that are used in quantity. Another area where rural operations have been charged significantly higher than average rates is for pole rental by many of the electric cooperatives that operate in rural areas.

The Cable Act has recently required the small operator, as well as large operators, to comply with certain system service standards. These standards have required, in some circumstances, the hiring of additional personnel which becomes burdensome particularly in the small or rural systems. The added expenses by operators of low density systems, in the face of an on-going rate freeze, have or will result in many technical defaults with lenders.

Operators of rural cable systems such as Tele-Media believe that Congress wants rural America to be cabled and to enjoy the benefits of modern communications technologies. In facilitating this intent of Congress, I request that the FCC create a regulatory environment that recognizes the high costs inherent in running small rural cable systems. It now appears that they want to abandon the people and organizations who made such construction and cabling possible.

I sincerely hope that you will give my comments your consideration and realize that operators of rural cable systems do have higher investment costs and expenses per subscriber than many of the larger urban operators. Should you wish to discuss further any of the comments that I have made, please feel free to give me a call at (814) 231-6723.

Respectfully yours,



Thomas F. Kenly
Sr. Vice President of Operations

TFK:cw